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SUBJECT: UPDATE ON CHILE'S ECONOMY: OCTOBER 16 SEES MIXED DAY IN MARKETS

REFS: SANTIAGO 923 AND PREVIOUS

11. (U) SUMMARY: This is another in a series of updates on major developments in Chile's economy in the face of global financial turmoil. On October 16 copper prices and the stock market fell, but the exchange rate appreciated. Finance Minister Andres Velasco said in an interview that the Chilean economy was well protected from the global crisis. Former Central Bank President Vittorio Corbo told a public seminar economic growth would slow. An Embassy contact, on several company and bank corporate boards, sees hard times for Chile's smaller- to medium-sized enterprises. Chile's Construction Association has been impacted by the crisis and is trying to spur housing starts. END SUMMARY.

Copper Prices Fall Further

12. (U) Copper closed at approximately \$2.21/pound, a drop of almost 5% on yesterday's price. This is copper's lowest price since March 2006.

Chilean Peso Edges Back Up vs. U.S. Dollar

13. (U) The exchange rate closed up at about 622 Chilean Pesos to 1 U.S. Dollar (an increase of less than 1% on yesterday's rate).

Small Decrease In The Stock Market

14. (U) The IPSA fell by about 1.5% from yesterday's close.

Finance Minister Reassures Chileans

15. (U) Finance Minister Andres Velasco said in an interview that the Chilean economy was well protected from the effects of the global financial crisis. He underlined that Chile's banking sector was strong and the fall of commodity prices would help reduce inflationary pressures in the economy. Velasco said lower copper prices would not affect Chile's fiscal policy. He noted Chile's Sovereign Wealth Funds (worth more than \$21 billion) and the Central Bank's reserves (worth more than \$22 billion) were stabilizing forces that could help cushion Chile from some of the brunt of the crisis.

Former Central Bank Head Predicts Slower Growth

¶16. (U) Influential former Central Bank President Vittorio Corbo told a public seminar that he expected Chile's GDP would grow by only 2 or 3% in 2009, as a result of the global financial turmoil. He predicted unemployment would increase and the best solution would be more flexibility in Chile's labor markets. Corbo said the crisis would last one to two years and although national interest rates would continue to fall, banks would maintain higher rates because of continuing liquidity problems.

Private Sector Board Member Sees Hard Times Ahead

¶17. (SBU) An Embassy contact that sits on the corporate boards of several companies and major banks in Chile, reported that she thought the global financial crisis was going to have a significant negative impact on small- to medium-sized firms. Access to credit would continue to be a problem, causing a slow-down in investment and even day-to-day operations. This would produce greater unemployment. She also noted the Central Bank's ongoing injections of liquidity into Chile's banking system were critical, having staved off "big problems" for some of Chile's major banks.

Construction Association Wants To Spur Housing Starts

¶18. (SBU) Embassy contacts at Chile's Construction Association (Camara Chilena de la Construccion -CCHC) believe the financial crisis is impacting the construction sector. Many projects are already well financed, insulating them somewhat from the reduction

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in liquidity among Chilean banks. However, new projects are being postponed because of problems with access to credit. Public infrastructure projects have been the main engine of growth for the construction sector in 2008. Individual homes and real estate construction have been weak and will likely see a further drop-off due to the crisis. Average interest rates on mortgage loans have reportedly increased from 5.6% to 6.2% in the last month. The CCHC has been pushing the GOC to take steps to ameliorate the situation, including subsidizing sales of new homes to encourage growth in housing starts.

SIMONS